A 9330-4-4
5/19/88

THE FEDERAL BUDGET AND THE CITIES

A Review of the President's Budget
for Fiscal Year 1989
October 1, 1988 to September 30, 1989

FEBRUARY 1988

Prepared by
THE UNITED STATES CONFERENCE OF MAYORS
1620 Eye Street, Northwest
Washington, D.C. 20006
(202) 293-7330

Copyright © 1988 by The United States Conference of Mayors
All rights reserved

Published by The United States Conference of Mayors
1620 Eye Street, N.W., Washington, D.C. 20006

J. Thomas Cochran, Executive Director

Additional copies of this publication may be obtained from The United States Conference of Mayors, 1620 Eye Street, N.W., Washington, D.C. 20006

The price of this publication is $15.00

PREFACE

This report, The Federal Budget and the Cities, examines the President's proposed budget from an urban perspective. It begins with a general overview of the budget and then addresses the various federal functions that are present in the nation's cities.

The budget is the single most important federal document published each year. It is the vehicle for formulation of national economic and fiscal policy and represents the most significant and comprehensive collection of the priority decisions that the United States government makes in the course of the year.

The Fiscal Year 1988 budget comes at a time of growing national concern with drugs on the streets and in our homes, destroying lives and increasing criminal activity; increasing demands for low-cost and efficient bus and rail transportation; the growth of AIDS into a national epidemic; the continuing growth of hunger and homelessness; and the lack of a national policy to ensure decent and affordable housing for all Americans.

This budget analysis is prepared by the staff of The U.S. Conference of Mayors. The Conference, established in 1933, represents the largest cities in America -- those with populations of 30,000 or more. Judgements made in this analysis are based on policies adopted by the members of the Conference.

J. Thomas Cochran

J. Thomas Cochran
Executive Director
The United States Conference
of Mayors

February 19, 1988

CONTENTS

OVERVIEW	ii
TAX POLICY	1
AGING	2
AIDS	2
ARTS & HUMANITIES	3
COMMUNITY DEVELOPMENT & HOUSING	4
CRIMINAL JUSTICE	5
DEFENSE	6
DRUG CONTROL	7
ECONOMIC & BUSINESS DEVELOPMENT	8
EDUCATION	9
EMPLOYMENT & TRAINING	9
ENERGY	11
ENVIRONMENT	12
FOOD STAMPS & NUTRITION	13
HEALTH	14
HOMELESSSNESS	15
HUMAN SERVICES	17
IMMIGRATION	17
INCOME SECURITY	18
SCIENCE, SPACE AND TECHNOLOGY	18
TRANSPORTATION	20
VETERANS	21

OVERVIEW

In the Administration's budget proposal for Fiscal Year 1989, "meeting national priorities" translates into reducing or eliminating much of the federal investment in local governments - governments that have been struggling for years to meet the basic needs of the great majority of our citizens, governments that have already been forced to absorb a decade of cuts in federal spending. While the budget calls for increases in a number of federal programs that attack urban problems, the FY89 proposal is essentially a continuation of a decade-long pattern in which federal urban spending has dropped each year to lower and lower levels.

The budget document acknowledges that "Federal grants to State and local governments (excluding payments for individuals, which are mainly programs for the poor) have been cut back sharply in real terms and as a share of GNP. Real grants have fallen from $68 billion in 1980 to $42.6 billion in 1987, a reduction of 37 percent. As a share of GNP, grants have been cut from 2.2 to 1.2 percent." If adjusted for inflation over this period, the reduction in grants would be closer to 50 percent.

For FY89 overall, the Administration proposes $1.094 trillion in outlays and projects $965 billion in receipts. The resulting deficit of $130 billion falls below the FY89 Gramm-Rudman-Hollings deficit target of $136 billion and satisfies the FY89 deficit reduction requirements of the recent budget agreement between the White House and the Congress. The bulk of the outlays would go into direct benefit payments for individuals (43 percent), defense (27 percent) and net interest on the federal debt (14 percent). The Administration estimates that 11 percent of the spending would go to states and localities.

The two-year budget "summit" agreement reached by the Administration and the Congress late last year calls for a deficit cut of $45.8 billion in FY89, the second year of the agreement. To achieve this total deficit cut, non-defense discretionary spending is reduced $5.8 billion, defense spending is reduced $8.2 billion, and entitlement spending is reduced $6 billion. In percentage terms, the non-defense category, in which key urban programs such as mass transit, housing, and community development are found, contributes the largest share to the deficit cut -- 3.4 percent of its total FY89 budget authority. Defense contributes 2.7 percent of its total, and entitlement programs, 1.2 percent.

Defense spending continues its rise in FY89: the Administration is proposing budget authority of $299.5 billion, a $5.1 billion increase over the current Fiscal Year. Increased spending for research and development accounts for a significant part of this proposed increase. Indeed, through the 1980's there

has been a trend toward more military research and development and less civilian R&D. From 1964 to 1980, military and civilian R&D were roughly equivalent: in 1980, defense R&D was 2.5 percent of outlays; civilian R&D was 2.6 percent of outlays. Today, expenditures for civilian R&D, which has produced enormous economic spinoffs, are half those of military R&D.

In general, the FY89 budget proposal is characterized by significant increases in spending for Administration priorities -- and significant decreases in spending for many major urban programs. Among the national priorities for domestic spending highlighted by the Administration in the FY89 proposal:

- Drug interdiction, education and treatment -- For the war on drugs in FY89, the Department of Justice would spend an additional $76.2 million for federal enforcement; the Department of Health and Human Services would spend $34 million for substance abuse prevention and a portion of its $509 million Alcohol, Drug Abuse and Mental Health Block Grant for drug treatment. Coast Guard funding would be increased by $343 million (13 percent), and 23 percent of the Coast Guard budget would be dedicated to drug interdiction. But overall federal aid for state and local anti-drug efforts would be somewhat lower in FY89: Law enforcement assistance, authorized at $225 million in the Anti-Drug Abuse Act of 1986 and funded this year at $70 million, would be eliminated; local drug education would be funded at $250 million, a $20 million increase; and local drug treatment would be funded at $166 million, a $10 million increase.

- Education -- The Administration would increase the Department of Education budget authority in FY89 from the current $20.3 billion to $21.1 billion; this would include another $300 million for compensatory education. If projected savings accrue from proposed credit reform measures, it would later add another $3.1 billion under the Guaranteed Student Loan program.

- Science and space -- In FY89, the Administration proposes to fund the National Science Foundation, the space programs of the National Aeronautics and Space Administration, and the general science programs of the Department of Energy at $13.9 billion, an increase of $3.1 billion, or 29 percent, over the current Fiscal Year. In the budget "summit" agreement, domestic discretionary spending was allowed to rise $3 billion in FY89; the President's request for science and space uses all of this allowance, plus an additional $100 million.

- AIDS research, education and treatment -- The $1.3 billion for AIDS research and prevention represents a

37 percent increase over current Department of Health and Human Services funding.

- Law enforcement -- The budget contains large increases for federal-level functions, including the Federal Bureau of Investigation ($199 million) and the Drug Enforcement Administration ($40.4 million), but it eliminates six separate programs (totalling $138.8 million) that support state and local criminal justice efforts.

- Hazardous waste clean-up -- FY89 budget authority for the Hazardous Substance Superfund would be increased by $472 million to $1.6 billion.

- Support for poor and elderly -- The budget will increase Social Security outlays by $13 billion, Medicare outlays by $6.8 billion, and Medicaid outlays by $2 billion. On the other hand, it proposes to cut the Community Services Block Grant by 19 percent, the Legal Services Corporation by 18 percent, Low Income Home Energy Assistance by 23 percent, and HUD's Section 202 elderly housing program by 38 percent. While the budget proposes $390 million for homeless assistance -- well below the $616 million authorized in FY88 for the McKinney Homeless Assistance Act -- it cuts or eliminates many of the programs authorized under this Act. While it increases the Supplemental Feeding programs by $75 million to $1.9 billion, it eliminates the $50 million Temporary Emergency Food Assistance program.

Among the urban programs hardest hit in the FY89 proposal:

- Mass transit -- Budget authority for mass transit programs would drop from the current $3.3 billion to $1.4 billion; programs would be funded at the level provided by one cent per gallon of the motor fuel tax. Transit discretionary grants would be terminated, as would transit operating subsidies to large and medium-size cities -- but not small cities or rural areas. (The budget proposed for FY89 will help us travel to the stars, but will not help us travel across town.)

- Housing -- Funds for public housing modernization would be cut from the FY88 level of $1.7 billion to $1 billion, and operating subsidies would be reduced a small amount, to $1.45 billion. Rental rehabilitation grants would be cut from $200 million to $150 million, and a number of housing programs would be eliminated altogether in FY89.

- Community and economic development -- The Community Development Block Grant would be cut from the current

$2.88 billion to $2.6 billion. To fund CDBG, $145 million would be transferred from HUD's Section 312 Rehabilitation Loan Fund, and the Fund would be terminated at the end of FY88. As in past budget proposals, the Urban Development Action Grant, now at $216 million, is slated for termination, as is the Economic Development Administration, now at $205 million.

- Sewage treatment construction -- Assistance to state and local governments for construction of publicly-owned treatment facilities would be cut $804 million, to $1.5 billion, in FY89.

And beyond the cuts in state and local funding for FY89, the bulk of the revenues raised by the President's budget would come from the state and local levels. By extending Medicare coverage to state and local employees, the Administration proposes to raise $1.6 billion in FY89, $2.1 billion in FY90, and $2.1 billion in FY91.

KEY URBAN PROGRAMS
FY 1980-1989
(Billions $)

PROGRAM	FY80	FY80 (Adjusted)	FY89 (Proposed)	Real % of cut
CDBG	$3.8	$5.1	$2.6	49
UDAG	$.7	$.9	0	100
GRS	$6.9	$9.2	0	100
MASS TRANSIT	$3.2	$4.3	$.1	97
EMPLOYMENT AND TRAINING	$6.5	$8.7	$5.5	37
EDA	$.5	$.7	$.04	94
LAW ENFORCEMENT ASSISTANCE	$.4	$.6	0	100
CLEAN WATER CONSTRUCTION	$4.3	$5.8	$1.5	74
TOTAL	$21.8	$35.2	$9.8	72.2

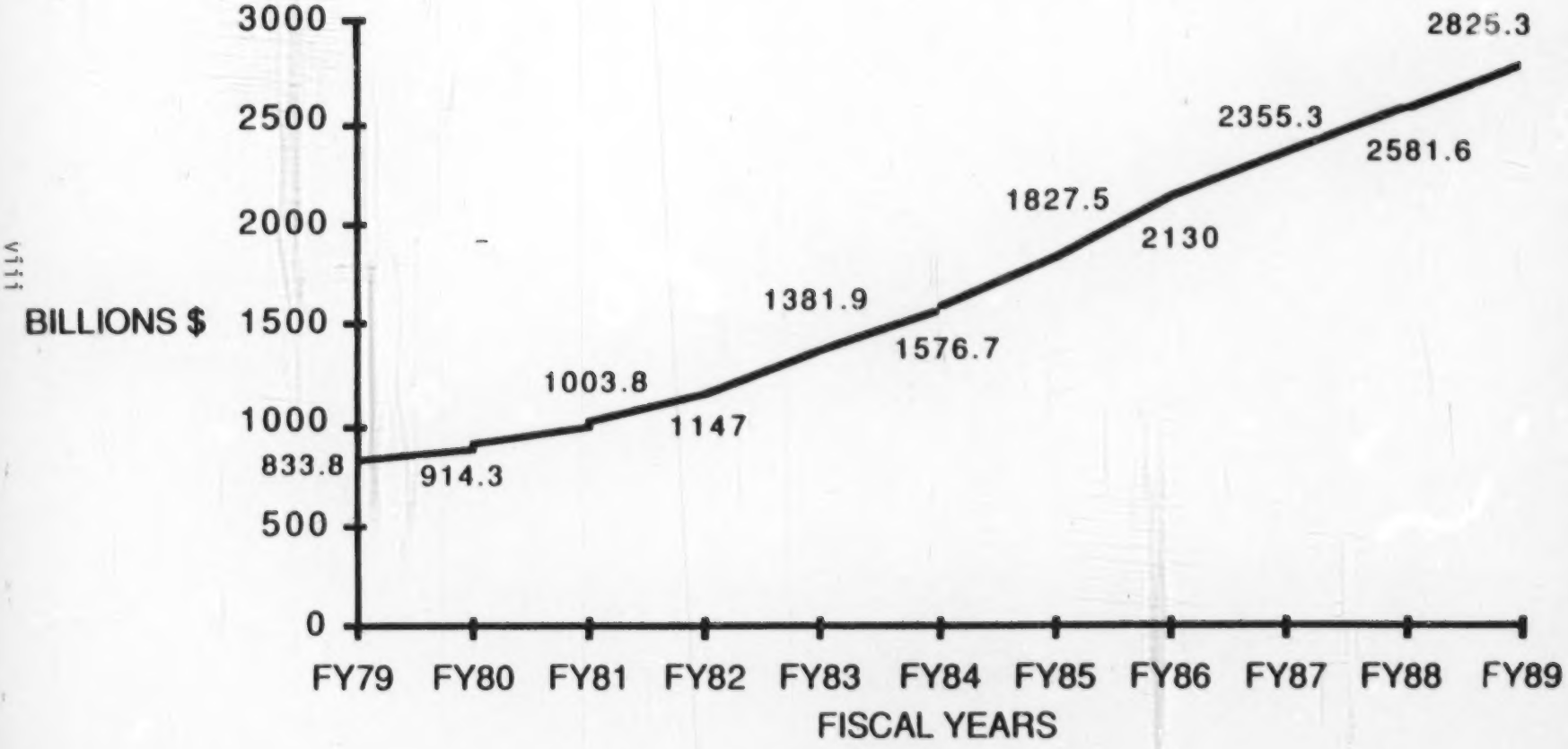
PRESIDENT'S FY89 BUDGET PRIORITIES
(BUDGET AUTHORITY BY FUNCTIONS)

(Billions of Dollars)

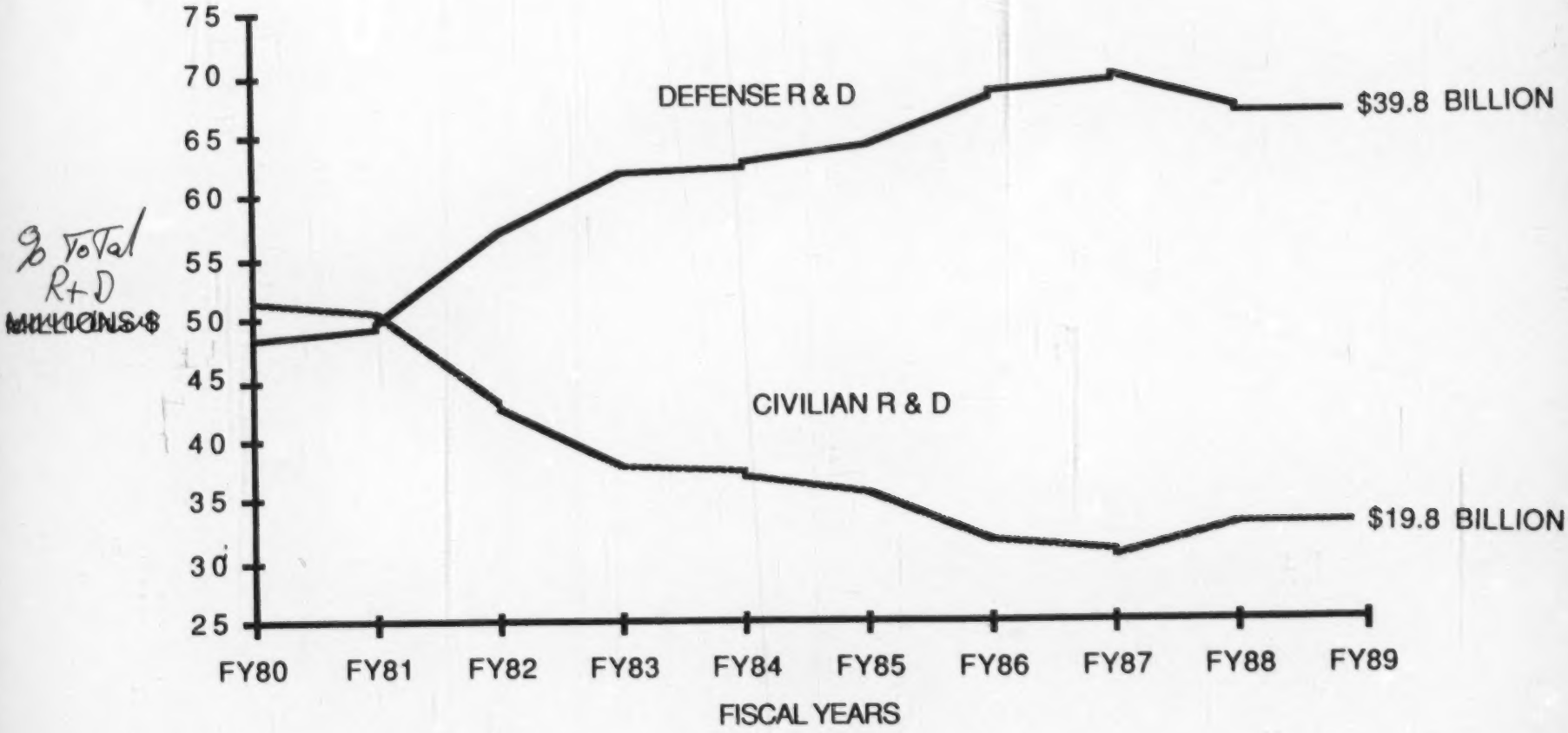
PROGRAM	FY88	FY89	% CHANGE
Defense	291.4	299.5	+2.8
International Affairs	16.2	16.5	+1.9
Science and Technology	10.7	13.9	+29.9
Energy	5.5	4.8	-12.7
Environment	15.4	15.1	-1.9
Agriculture	22.5	23.8	+5.8
Commerce-Housing Credit	16.3	14.8	-9.2
Transportation	28.0	27.0	-3.8
Community Development	9.5	6.2	-34.7
Education-Training	35.0	39.4	+12.6
Health	45.5	48.8	+7.3
Medicare	93.9	106.5	+13.4
Income Security	171.0	173.2	+1.3
Social Security	256.5	278.9	+8.7
Veterans	28.2	30.2	+7.1
Justice	9.2	10.3	+12.0
General Government	9.0	9.9	+10.0
Interest	147.8	151.8	+2.6

GROSS FEDERAL DEBT

Fiscal Years 1979 - 1989



SHIFT IN R&D INVESTMENT
Fiscal Years 1980 - 1989



TAX POLICY

The President's proposed FY89 budget includes $2.2 billion in revenue enhancements, offset by $1.5 billion in revenue-losing proposals, resulting in a net revenue increase of $700 million. The bulk of revenue increase is driven by the Administration's proposal to extend Medicare coverage to state and local employees.

This Medicare proposal would raise an additional $5.8 billion over the next three years ($1.6 billion in FY89, $2.1 billion in FY90, and $2.1 billion in FY91). This proposal has been offered by the Administration for several years and Congress has refused to impose this additional burden on state and local governments, where in most instances employees are covered by separate hospitalization insurance programs.

The President's budget argues that "because of eligibility through their spouse or short periods of work in covered employment, as many as three out of four State and local employees who contribute nothing to the program are entitled to the full range of Medicare benefits."

This increase would offset several revenue-losing proposals. These include:

- A proposal to allow companies with foreign operations to allocate 67 percent of total research and experimentation expenditures to domestic sources of income; currently they are allowed to allocate 30 percent. This proposal would cost $600 million in FY89.

- A proposal to exclude from taxation the interest on certain savings bonds that are redeemed to pay certain post-secondary educational expenses of the taxpayer or the taxpayer's spouse, children, or other dependents. This proposal is projected to cost $10 million in FY89 and up to $100 million by FY91.

Other major revenue items include the initiation of a permanent research and experimentation tax credit, costing $400 million in FY89; exemption of mutual fund shareholder expenses from the two percent floor for miscellaneous deductions, costing $400 million in FY89; increased user fees for the Nuclear Regulatory Commission, the Federal Emergency Management Agency, and a modification of the ad valorem fee on imports.

The Administration's budget also proposes modest changes in oil and gas depletion rules, repeal of the Windfall Profit Tax,

and calls for passage of a technical corrections bill to correct flaws in the 1986 Tax Reform Act.

Finally, the Administration's budget would repeal a 50 percent reduction in airport and airway trust fund taxes projected for calendar year 1990. This is expected to increase trust fund receipts in 1990 by $2.1 billion.

AGING

The Administration's FY89 budget contains proposals that will adversely affect the elderly. Section 202 housing assistance would be reduced and Medicare reimbursements would be cut. While most programs funded under the Older Americans Act would remain at current levels, no funding is included for the National Council on Aging. Aging research and technical assistance funds would be combined with those for other populations administered by the Office of Human Development Services of the Department of Health and Human Services.

- The Section 202 elderly and handicapped housing program administered by HUD would be cut back 38 percent, from 11,373 units in FY88 to 7,000 units in FY89. One-fourth of these units are reserved for handicapped persons.

- The HHS budget includes $94.5 billion in outlays for Medicare in FY89, a $6.8 billion increase over this year. The budget, however, includes $1.3 billion in proposed cuts in Medicare through reduced reimbursements for certain procedures, equipment rental, physicians' fees, and teaching hospitals.

- Under the Older Americans' Act, Title III services and meals would remain at the FY88 level of $689 million next year and the community services employment program administered by the Department of Labor would be increased from $258 million to $262 million (the FY87 level).

AIDS

The Administration's budget requests $1.3 billion for FY89 spending on AIDS research and prevention within the Department of Health and Human Services (HHS) represents an increase of 37 percent over the current FY88 level of $951 million. In the past year, the Centers for Disease Control reports that the

number of AIDS cases has increased 69.5 percent, from 30,839 cases reported nationwide in February 1987 to over 52,000 in February of 1988.

Unlike previous years, the President's FY89 budget consolidates all AIDS spending in the HHS into one lump sum under the Assistant Secretary for Health rather than distribute funds to specific agencies within the Public Health Service. This is being done, the Department states, to improve coordination and management accountability as well as increase research flexibility to respond to scientific breakthroughs. Steps are also being taken to combine awards to states for AIDS prevention and education, and HHS will explore combining other state-related AIDS activities.

HHS reports the following breakdown for AIDS funding:

- Public Health Education and Prevention Measures, $400 million (27.0 percent increase over FY88);
- Pathogenesis and Clinical Manifestation Research, $385 million (+ 39.5 percent);
- Therapeutic and Vaccine Development, $336 million (+ 41.2 percent);
- Health Professions Training and Patient Care Research, $68 million (+ 126.7 percent);
- Multidisciplinary Research, $71 million (- 2.7 percent);
- Construction, $25 million (+ 31.6 percent); and
- Contingency, $15 million (no FY88 appropriation).

ARTS AND HUMANITIES

National Endowment for the Arts (NEA)

The FY89 Administration budget request for the National Endowment for the Arts is $167.7 million, the same as the current congressional appropriation. Programs in the NEA of special interest and support to cities are the Design Arts program, the Visual Arts program, and the Local programs which help support local arts agencies.

National Endowment for the Humanities (NEH)

The National Endowment for the Humanities supports research, scholarship, education, and general audience programs in the humanities. The Administration's FY89 budget request is $140.4 million, the same level as the current appropriation. NEH programs that affect cities include humanities instruction in elementary and secondary schools, and institutions of higher learning; fellowships and seminars for college and secondary school teachers, independent scholars, and younger scholars; public humanities projects; and humanities projects in museums, historical organizations, and libraries.

Institute of Museum Services (IMS)

The Institute of Museum Services provides funds through annual, competitive grant programs to help the nation's museums meet operating expenses and conservation needs. In its FY89 budget request, the Administration has requested $21.9 million for the IMS, as in the case of the NEA and NEH, the same as the FY88 appropriation.

COMMUNITY DEVELOPMENT AND HOUSING

Community Development

In the Administration's FY89 proposal, Community Development Block Grants (CDBG), funded at $2.88 billion in FY88, would be cut to $2.6 billion. The FY89 funding level for the CDBG program is a combination of $2.5 billion of new budget authority and a transfer of $145 million from the Section 312 Rehabilitation Loan Fund. Section 312 is proposed for termination at the end of FY88.

The Urban Development Action Grant (UDAG) program, funded at $216 million in FY88, is proposed for termination in FY89. The budget request for disaster relief, administered by the Federal Emergency Management Agency, is $200 million to support an obligational level of $220 million. The request assumes the reduction of $30 million through legislative and administrative reforms.

Housing

Vouchers continue as the principal component of the Administration's housing policy. For FY89, 100,000 vouchers, 7,000 elderly and handicapped units, and 1,000 units of Indian housing are requested. In sum, the Administration proposes to provide 108,000 additional households with subsidies in FY89.

As for public housing, funds for modernization would be cut from $1.7 billion in FY88 to $1 billion in FY89, while public housing operating subsidies would be cut from $1.5 billion to $1.45 billion.

The Fair Housing Initiatives Program (FHIP), which was authorized in the Housing and Community Development Act of 1987, and the Fair Housing Assistance Program would each be funded at $5 million for a total of $10 million for fair housing activities.

The budget proposes a cut in the Rental Rehabilitation Grants program, from $200 million in FY88 to $150 million in FY89. In addition, the Administration plans to seek legislation which deny Rental Rehabilitation funds to localities with rent controls.

In FY89 the Administration requests no funds for the following programs:

- Housing Development Grants (HoDAG);
- Section 235 Homeownership Assistance;
- Section 8 Moderate Rehabilitation; and
- Section 8 Existing Certificates.

CRIMINAL JUSTICE

The Administration's FY89 budget proposal states that the enforcement of the laws and the provision for the safety of the people is "a central domestic responsibility of the Federal Government." Yet, a major provision of the FY89 criminal justice budget is the elimination of all State and local assistance programs. As stated in the proposal, these programs should be terminated because, "...the States can better afford to pay for these programs than can the Federal Government and because States and localities benefit directly from them." These philosophical underpinnings are the bases for the Administration's proposal which includes a 4.5 percent overall budget increase for federal law enforcement activities including increases in FBI and DEA authorities and a $1.4 billion request to finance ten new federal prisons, as well as the elimination of six programs which currently provide financial assistance to state and local governments' criminal justice systems.

The programs slated for elimination include:

- Anti-Drug Abuse;
- State and Local Assistance;
- Juvenile Justice;
- Crime Control;
- Regional Information Sharing; and
- Mariel Cubans program.

These terminations represent a decrease of $138.8 million in assistance to state and local governments.

Other criminal justice funding proposals are: Federal Bureau of Investigation -- $1.6 billion, a $199 million (13.4 percent) increase over FY88. Drug Enforcement Administration -- $538 million, a $40.4 million (7.6 percent) increase. National Institute of Justice -- $21.6 million, a $2.3 million (12.4 percent) increase. Bureau of Justice Statistics -- $20.6 million, a $1.3 million (6.9 percent) increase. And, Missing and Exploited Children's program -- $4 million, a $1.04 million (20 percent) decrease.

DEFENSE

NATIONAL DEFENSE ACCOUNTS
(Budget authority in billions of dollars)

	1988 Estimate	1989 Request	Increase $	Increase %
Military Personnel	76.1	78.4	+2.3	+3.0
Operations & Maint.	80.3	85.5	+5.2	+6.5
Procurement	81.0	80.0	-1.0	-1.0
Research & Developmt.	36.7	38.2	+1.2	+4.1
Other	17.0	17.4	+0.4	+2.3
TOTAL	291.4	299.5	+8.1	+2.8

In keeping with the second-year targets of the Budget Summit Agreement, the Administration is proposing $299.5 billion in budget authority and $294 billion in outlays for national defense. This represents increases of $5.1 billion in budget authority and $8.6 billion in outlays over the FY88 appropriated levels.

The second largest increase in expenditures within the defense budget arises from the research, development, test and evaluation component. This component is projected to increase by 4.1 percent over budget authority for FY88.

Outlays for defense research and development in FY89 are projected to reach $39.8 billion, while spending for civilian research and development is estimated to be $19.8 billion.

The President's FY89 defense budget reduces military personnel from 2,172,400 to 2,138,300. It also provides $4.6 billion for the Strategic Defense Initiative, and proposes development of a rail garrison basing mode for the Peacekeeper ICBM.

The President's budget also calls for the procurement of the following:

- 545 M-I Abrams tanks;
- 72 AH-64 Apache attack helicopters;
- 72 Blackhawk utility helicopters;
- 10 Navy deployable battle force ships;
- 16 tactical airwings, and 24 land-based squadrons;
- 25 fully equipped active Air Force wings;
- 36 F-16 multi-mission fighters; and
- 1,500 advanced medium-range air-to-air missiles.

DRUG CONTROL

The Administration proposes to eliminate funding for drug enforcement at the local level, while funding for federal drug enforcement would be increased. The state and local law enforcement assistance program, which was funded at $69.5 million in FY88, is to be terminated.

Funding levels for the treatment and education components of the 1986 Anti-Drug Abuse Act are $166 million and $250 million, respectively, which represent a $10 million increase in treatment funds and a $20 million increase in education programs.

The budget proposes funding increases for the following federal enforcement programs:

- $34 million for augmented Drug Enforcement Administration investigations;
- $3.6 million for increased support for Federal Bureau of Investigation anti-drug efforts;
- $12.7 million to expand the U.S. Attorneys' offices capacity for prosecuting narcotics cases;
- $7 million for enhancing the U.S. Marshals Service's programs for protecting judges and drug trial participants; and
- $18.7 million for housing unsentenced federal prisoners held on drug charges in non-federal institutions.

The Department of Health and Human Services budget proposal includes $34 million for the Office of Substance Abuse Prevention, and $509 million (a 4 percent increase) for the Alcohol, Drug Abuse, and Mental Health Administration Block Grant, a portion of which can be used to provide drug treatment.

Also, the Administration proposes to increase U.S. Coast Guard funding by $343 million (13 percent). Approximately 23 percent of the Coast Guard budget will go toward drug interdiction efforts.

ECONOMIC AND BUSINESS DEVELOPMENT

The FY89 budget for the Small Business Administration (SBA) proposes to eliminate all direct lending in favor of guaranteed loans. The proposal calls for $3.6 billion in guaranteed loans for the SBA programs of General Business Assistance, Development Company Assistance, and Investment Company Assistance. Once again the Administration proposes to transfer the Minority Business Development Agency (MBDA) from the Department of Commerce to the Small Business Administration.

As it has in each of the last several years, the President's budget proposes the elimination of the Economic Development Administration (EDA), now funded at $205 million.

The Administration requests $11 million for the U.S. Travel and Tourism Administration in FY89, and will submit to Congress

fee proposals to be collected from the travel industry to fund the agency for FY90 and beyond.

EDUCATION

The Administration proposes $21.1 billion in budget authority for programs under the Department of Education for FY89, an increase of $861 million over the FY88 estimated level. If projected savings accrue from proposed credit reform measures to increase default risk sharing with lenders and guarantee agencies, an additional $3.1 billion is proposed for FY89 under the Guaranteed Student Loan program.

The major increases proposed for FY89 education programs in relation to FY88 estimated levels are:

- Compensatory Education for the Disadvantaged - $4.6 billion as compared to $4.3;
- Student Financial Assistance - $6.1 billion as compared to $5.5 billion; and
- Guaranteed Student Loans - $2.7 billion as compared to $2.6 billion.

No funds are requested for FY89 for Impact Aid for the children of parents who work on federal facilities but live on non-federal property, a decrease of $116 million.

The Administration intends to propose legislation expanding the eligibility of school systems to implement magnet school strategies for desegregation. The legislation would request $115 million for FY89, an increase of $43 million over the FY88 funding level.

The Secretary of Education will develop model legislation for state legislatures to promote the use of vouchers for public and private schools.

EMPLOYMENT AND TRAINING

The Administration's FY89 budget request for Department of Labor Employment and Training programs is $5.5 billion. This includes $3.4 billion for programs currently authorized by the Job Training Partnership Act (JTPA), $716 million for the Employment Service, $336 million for Community Service

Employment for Older Americans and $980 million under proposed legislation for a new Worker Readjustment account.

The largest JTPA program is the Block Grant program, for which the Administration requests $1.8 billion for FY89, the same as the FY88 appropriation. These funds are used by state and local governments to design and operate employment and training programs for the economically disadvantaged.

The FY89 request calls for $718 million, the same as FY88, for the Summer Youth Employment and Training Program to support the forward-funded effort during the summer of 1990. The administration would propose legislative changes to the existing summer youth authorization that would allow service delivery areas (SDAs) to provide year-round remedial education and basic literacy and skills training, subsidized jobs during the summer, or both, to economically-disadvantaged youth.

No funds are requested for the current dislocated worker programs authorized by the Trade Adjustment Assistance Act and JTPA; these would be replaced with the proposed consolidated Worker Readjustment program (WRAP). Total budget authority for the new program is $980 million, of which $32 million is for residual trade adjustment assistance. The budget requests that the $287 million appropriated in FY88 for dislocated worker assistance under JTPA be made available for transition purposes, in addition to the normal program of assistance, until WRAP is enacted and fully implemented.

The Job Corps's budget authority request for FY89 is $711 million, $5.5 million less than FY88. In the National programs area--assistance to specific population segments such as Native Americans, migrants, pilot and demonstration efforts--the budget request is $193 million, $24 million less than FY88. The budget includes $336 million for the Community Service Employment for Older Americans program in 1989, an increase of five million dollars above FY88.

The Administration requests no funds for the Homeless Job Training program. Congress appropriated $9.6 million in FY88. The budget includes $336 million for the Community Service Employment for Older Americans program in 1989, an increase of $5 million above 1988. The budget request calls for $716 million for the Employment Service, including $7.7 million for increased workload in the National activitiy related to the Immigration Reform and Control Act of 1986, and further funding for Interstate Clearance, Test Development, and Occupational Analysis Field Centers. Proposed reductions reflect discontinuation of separate funding for the Targeted Jobs Tax Credit Program ($29.3 million) and a decrease of $59 million for state grants.

ENERGY

The Administration's FY89 budget proposal for the Department of Energy is $16.1 billion, an increase of 14 percent over the FY88 budget of $14.1 billion. The increase in actual program activity is slightly above 11 percent; this is because there were $356 million in carryover funds from previous years in FY88, but only $52 million in FY89. Budget requests are up this year in all major program areas except for the area of grants and other energy functions, which was cut in half, from $403.2 million in FY88 to $207.1 million this year.

The budget proposal for energy research and development (R&D) is up 18 percent, from $3.2 billion in FY88 to $3.7 billion in FY89. The largest increases are in basic science research, which includes $363 million for the Superconducting Super Collider as well as funds for other major research projects; and in clean coal technology, which is up from $50 million in FY88 to $525 million in FY89. Congress committed in advance the FY89 funding for clean coal technology; DOE is requesting that Congress commit the remaining $1.8 billion of the five-year Innovative Control Technology Initiative for the period FY90-92.

However, research and development programs of particular interest to the cities have been cut. The FY89 request for conservation R&D is $80.7 million, down from $154.2 million in FY88; proposed funding for renewable energy R&D is $124.9 million, down from $149 million last year; and the proposal for fossil energy R&D is $167 million, compared to $327 million last year.

Defense production and support is up six percent, from $4.3 billion in FY88 to $4.6 billion in FY89. Defense R&D remains unchanged at $2.5 billion.

The largest increase is in business enterprises, with an FY89 request for $3.1 billion, up 35 percent from the FY88 level of $2.3 billion. This is due primarily to the Administration's proposal to sell two of the Naval Petroleum Reserves and apply the proceeds to doubling the rate of fill at the Strategic Petroleum Reserve and establishing a 10-million-barrel Defense Petroleum Inventory. There also is a substantial increase in funding requested for uranium enrichment.

Again this year, the Administration proposes no federal funds for the conservation grants program, which has provided funds to state and local governments for energy conservation measures. The budget document cites the availability of oil overcharge recoveries to fund these measures, and requests only

$8.6 million in FY89 to continue grant close-out activities and monitor oil overcharge funds. Conservation grant funds in FY88

were $212.1 million, despite the fact that the Administration had made the same proposal to discontinue federal funding.

In previous years, the Administration has proposed selling the five power marketing administrations (PMAs). This year's budget documents propose the sale of the Alaska Power Administration and a study of divestiture of the Southeastern Power Administration. In future years, the Administration expects to propose studies of the divestiture of the other PMAs.

ENVIRONMENT

This year's environmental budget proposal of $15.2 in budget authority is a decrease of some $233 million from FY88. Embodied in the proposal are funding increases in many programs vital to cities, but also included is a cut of $804 million or 30 percent in the Clean Water Construction Grant as well as the elimination of the Urban Park and Historic Preservation Programs.

Environmental Protection Agency

The Environmental Protection Agency Budget is composed of four major components: the Wastewater Treatment Construction Grants program, the operating budget, Superfund, and the Leaking Underground Storage program

- Wastewater Treatment - The Administration proposes a cut in the Wastewater Construction Grant program to $1.5 billion. These funds would be divided equally between grants to local government and state revolving loan funds. This proposal is consistent with the President's objections to the Clean Water Act of 1987, enacted into law over a presidential veto, authorizing $2.4 billion in funding for FY89. The Construction Grant program is slated for termination in 1993.

- Operating Budget - The EPA budget supports basic implementation of federal environmental programs and assistance. Citing the increased responsibilities of the Clean Water Act of 1987, the budget proposes an increase of $51 million for a FY89 funding level of $1.589 billion.

- Superfund - The Superfund Amendments of 1986 created a trust fund, the superfund environmental tax, to finance the cleanup of abandoned hazardous waste sites and hazardous chemical spills. The budget requests $1.6 billion for FY89, that level supported by the new tax. The Administration has also called for parity in the amount of tax imposed by the superfund. Currently, the law imposes a tax of 8.2 cents on a barrel of domestic crude but an 11.7 cents per barrel tax on imported crude. The budget proposal is revenue neutral.

- Leaking Underground Storage Tank - Also funded by an independent trust fund, the budget calls for funding of the LUST program at $50 million, an increase of $36 million. If this increase were accepted it would return the program to FY87 levels.

Water Resources

Despite a new ad valcrem tax authorized in the Water Resources Development Act of 1986 (WRDA) and cuts in soil conservation services, water resources will continue to be funded at $4.3 billion. WRDA authorized a tax of 4 cents for every $100 of value of cargo loaded or unloaded and will fund 40 percent of the federal share of water resource programs.

Recreational Resources

The budget calls for a cut of $300 million or 20 percent in recreational resources. No funds are requested for Urban Parks and Recreation Recovery Planning Grants [UPPAR]. Grants to states for acquisition and development of outdoor recreation lands as well as support of State historic preservation staffs are proposed for elimination in FY89.

FOOD STAMPS AND NUTRITION

The Administration's FY89 budget request for the food stamp program is $12.5 billion, a reduction of $119 million from FY88 levels. The Administration projects a decrease in the number of participants in the program, from 18.82 million persons in FY88 to 18.77 million persons in FY89, due to expected lower levels of unemployment and other factors. Funding for nutrition assistance for Puerto Rico, which was taken out of the food stamp program, is proposed at the authorized level of $908.2 million, an increase of $29 million over FY88.

The FY89 budget proposes $1.9 billion for the Supplemental Feeding Programs, an increase of $75 million, and would combine, for the first time, funding for the Special Supplemental Food Program for Women, Infants, and Children (WIC) and the Commodity Supplemental Food Program (CSFP). The proposed budget would enable WIC to serve approximately 3.8 million low-income women, infants and children, a slight increase over the 3.4 million persons who will participate in the program each month in FY88. About the same number of elderly persons, 80,000, would continue to be served through the CSFP program.

The requested funding level for child nutrition programs includes:

- $3.2 billion for the school lunch program ($193 million more than in FY88);
- $514 million for the school breakfast program ($31 million more than in FY88);
- $646 million for the child care feeding program ($65.3 million more than in FY88);
- an increase of $10 million, or a total of $147.8 million, for the summer feeding program; and
- $20 million for the Special Milk Program, a $1.6 million reduction from the FY88 funding level.

As in the past years, the Administration's FY89 budget calls for the elimination of the Temporary Emergency Food Assistance program, through which surplus commodities are distributed to soup kitchens and other emergency food assistance facilities.

HEALTH

The President's FY89 budget proposes a significant increase in spending for health care, largely because of large increases in spending for AIDS, Medicaid and Medicare. Several programs affecting the health of city residents are reduced to help offset these increases, including reductions for indirect medical education adjustments for teaching hospitals.

The largest federal program, Medicare, which provides health insurance for an estimated 30 million elderly and three million disabled individuals, is slated for a funding level of $94.5 billion, 7.8 percent higher than the estimated FY88 amount. This level of spending is achieved by cutting an additional $1.2 billion beyond the reductions taken by the 1987

Omnibus Budget Reconciliation Act. Chiefly, the new cuts come from proposed physician reimbursement reforms ($115 million), placing a cap on durable medical equipment rental ($80 million), selected non-physician reimbursement proposals ($105 million), and reducing the factor used in making indirect medical education adjustments to 4.05 percent from the current level of 8.1 percent ($920 million). Also, the Administration again proposes to raise revenues by including all state and local employees under the Medicare program ($1.6 billion).

Under the Administration's budget proposal, Medicaid, the federal-state-local health care program for the poor, is budgeted at $58.4 billion, of which $32.7 billion is projected for the federal share, and $25.7 billion projected for the state and local share. The FY89 federal share of $32.7 billion is a 6.5 percent increase over the FY88 level of $30.7 billion. The program finances health care for 25 million persons. Unlike previous years, the Administration is not proposing Medicaid reductions for FY89, consistent with the bipartisan budget summit agreement.

The President's budget requests budget authority of $1.3 billion in health block grants for FY89 -- an increase of $60 million over the FY88 level for the programs included. The Family Planning Grants program administered by the Health Resources and Services Administration, currently a $139.7 million program, is proposed to be a block grant of $140 million. FY87 funding for the HRSA program was $142.5 million. Other health block grant funding in the Administration's budget includes a slight decrease in the Preventive Health Block Grant from $85.73 million to $85.66 million; and an increase in the Maternal and Child Health Block Grant from $526.6 million to $561 million.

The President's budget request supports the enactment by Congress of health insurance to provide affordable acute care catastrophic illness protection and outpatient prescription drug coverage for the elderly and disabled. No funds are contained in the FY89 budget for this purpose, since the Administration's position is that such a program should be revenue neutral, with benefits paid from newly-created trust funds, fully-financed by beneficiary premiums.

HOMELESSNESS

While the Administration proposes $390 million in funding to assist homeless persons, many of the programs authorized by the Stewart B. McKinney Homeless Assistance Act of 1987 would be cut or eliminated. The U.S. Conference of Mayors' policy calls

for $616 million in homeless assistance, the FY88 authorized level of the McKinney Act.

The budget proposes $272.2 million for programs authorized by the McKinney Act:

- The supportive housing demonstration program (HUD) would receive $75 million, a $10 million increase over the FY88 level; funding for chronically mentally ill veterans (VA) would be increased to $13 million; food stamp changes authorized would account for $77 million in increased expenditures by the USDA; and $1.2 million, a 50 percent increase, is proposed for the Interagency Council on the Homeless.

- The health care for the homeless program and the mental health services block grant would be funded at current levels in the HHS budget.

- The FEMA emergency food and shelter program would be cut 30 percent, from $114 million in FY88 to $80 million.

- No funds would be provided in the HUD budget for emergency shelter grants, supplemental assistance, or Section 8 15-year moderate rehabilitation for single room occupancy dwellings. Neither would funds be provided for the job training program (DOL), emergency community services (HHS), education programs (ED) or the USDA temporary emergency food assistance program.

Several exsiting programs not authorized by the McKinney Act are included in the $390 million proposed for the homeless:

- $50 million in HUD Section 202 housing loans for elderly and handicapped people would be earmarked for the "mentally ill, homeless handicapped."

- The entire budget ($38 million) for the Community Support Program (HHS), which provides assistance to severely mentally ill persons, and for the HHS Runaway and Homeless Youth Program ($27 million) are counted.

- The Department of Defense would provide $2.4 million for the renovation of surplus facilities and the provision of equipment, such as cots and blankets.

HUMAN SERVICES

While most human service programs would remain at current levels in the FY89 budget, funds for the community services block grant and the Legal Services Corporation would be cut and those for Foster Care and Adoption Assistance would be increased.

- Remaining at current levels are the social services block grant at $2.7 billion, Head Start at $1.2 billion, child and family programs at $273 million, and programs for runaway youth ($26 million) and Native Americans ($30 million).

- The community services block grant would be cut 19 percent to $310 million, with no funds included specifically for homeless activities ($19 million were in FY88). The overall cut in the CSBG is part of the Administration's planned phase out of the program.

- The Legal Services Corporation would be cut 18 percent from $305.5 million to $250 million.

- Foster care would be increased $174 million over FY88 to $832 million to meet increased state claims and a slight increase in the average monthly number of children in foster care. Adoption assistance would be increased $25 million to $133 million because additional states will be taking advantage of the program and more children will be assisted through it.

IMMIGRATION

The FY89 budget request for the Immigration and Naturalization Service (INS) is $859.3 million, an increase of $118 million over the FY88 level. Of that amount, $565 million would be used for immigration enforcement, $46 million more than in FY88. The INS budget projects $89.8 million in FY89 from fees charged to applicants during the second phase of the legalization program established by the Immigration Reform and Control Act of 1986. This landmark immigration law legalizes certain illegal aliens; prohibits the hiring of illegal aliens; and establishes a special legalization program for foreign agricultural workers.

The FY89 budget also includes $643 million for the Social Security Administration of the Department of Health and Human Services to reimburse states for the cost of providing

financial, medical and educational assistance to newly legalized aliens.

The Administration's FY89 budget request for refugee and entrant assistance programs administered by the Department of Health and Human Services is $279 million, $68 million less than the FY88 level. The proposed reductions are based primarily on: 1) lower projected refugee admissions, and 2) shorter time periods for which states and local governments are reimbursed for providing cash and medical assistance to refugees. The Targeted Assistance Program, which provides financial assistance to local governments with high concentrations of refugees and entrants, would be funded in FY89 at the current level of $34 million.

INCOME SECURITY

While outlays for social security are expected to increase by over $13 billion from FY88 to FY89, those for Aid to Families with Dependent Children and Supplemental Security Income would remain approximately at current levels. Funds for the Low-Income Home Energy Assistance Program would be cut 23 percent below the FY88 level to $1.19 billion, 35 percent below the FY87 level. The Work Incentive Program would be eliminated altogether.

To accomplish the priority of reforming the welfare system included in the President's budget message, the budget document cites the Administration's strong support for the AFDC Employment and Training Reorganization Act (HR 3200 and S 1655) and includes $168 million in increased outlays in the FY89 budget for first-year costs associated with it. This legislation would allow governors, with approval of a federal administrative board, to fold 22 urban and human service programs (including the Community Development Block Grant, housing assistance, rent supplements, the Job Training Partnership Act and vocational education) into welfare demonstration projects. This approach to welfare reform is strongly opposed by The U.S. Conference of Mayors.

SCIENCE, SPACE, AND TECHNOLOGY

The Administration includes all programs of the National Science Foundation (NSF), the space programs of the National Aeronautics and Space Administration (NASA), and general science programs of the Department of Energy (DOE) within the

category of General Science, Space, and Technology. The proposed budget authority for these programs is $13.9 billion in FY89, an increase of $3.1 billion, or 29 percent above the FY88 level.

Major initiatives proposed in the FY89 budget include a nearly 30 percent increase over the FY88 level for NASA, a 19 percent increase over the FY88 level for the National Science Foundation, and a 50 percent increase for the Department of Energy's High Energy and Nuclear Physics program, including funds to initiate construction of the Superconducting Super Collider (SSC).

General science and basic research covers all NSF programs as well as general science projects and programs of the Department of Energy in high energy and nuclear physics. Budget authority of $3.3 billion is proposed for these programs in FY89, an increase of 29 percent over FY88.

The FY89 budget includes $2.1 billion in proposed budget authority for the NSF, an increase of 19 percent over FY88. Within this amount, the funding of basic research would increase from $1.4 billion in FY88 to $1.7 billion in FY89. In addition, the Administration proposes a new one-time appropriation of $150 million to establish 10 to 15 fully-funded interdisciplinary basic science and technology centers over the next five years.

General science programs of the Department of Energy fund basic research, construction, and operation of facilities in nuclear and high energy physics. Budget authority of $1.2 billion is requested in FY89, an increase of 49 percent over the FY88 level. The President's proposal also includes $363 million (up from $25 million in FY88) to continue development of the $6 billion Superconducting Super Collider.

Space Research and Technology

The President's budget proposes a $2.4 billion increase in NASA's space programs. This includes:

- $1 billion in FY89 for the manned space station (an increase of $575 million over FY88, and a three-year advance appropriation commitment from Congress for $6 billion);
- $100 million for Project Pathfinder, a new program to develop technologies for use in manned exploration of the solar system (projected total cost of $1 billion);
- $88 million for the Advanced Solid Rocket Motor program, a new start to develop a replacement solid

booster for the space shuttle (projected total cost of $1 billion); and

- $30 million for the Advanced X-ray Astrophysics Facility, a new space telescope program with a projected total cost of $1.4 billion.

In a related area, the Commerce Department's National Bureau of Standards budget request for FY89 is $152 million, up from $140.8 million in FY88. This increase anticipates enactment of the Technology Competitiveness Act. Increased funding is expected to include some support for a federal-to-state technology tranfer extension service that may respond to municipal technology transfer needs.

TRANSPORTATION

The Administration's proposed FY89 transportation budget, much like those rejected by Congress in the past, calls for either the elimination of or large-scale reduction in vital surface transportation programs for cities. Despite recent regulatory action which increases revenues generated by the gas tax trust fund, the Administration calls for reductions in highway funding and the elimination of mass transit operating assistance to medium and large cities.

Specifically, the President's budget calls for the:

- Elimination of funding for mass transit - The budget proposes to eliminate all general tax dollars from mass transit. This results in reduced funding from $3.334 billion to $1.281 billion. This cut would eliminate operating assistance to large and medium size cities. The only exception to the prohibition of devoting general funds is $128 million earmarked for the Washington Metro system.

- Federal-aid highway funding reduced from $13 billion to $12 billion - Again this year, the Administration has reduced the obligation ceiling for highway funding, citing insufficient funds generated by the Highway User Trust Fund. Despite this claim, the latest estimate places the surplus in the Trust Fund in excess of $9 billion. The budget also requires no less than 20 percent of state or local matching funds for all demonstration projects, currently funded 100 percent by the federal government.

- $900 million increase in Federal Aviation Administration Funding - The budget requests a $7.8 billion budget authority for FY89, 70 percent will be financed from the Aviation Trust Fund. Operations at FAA will be funded at $3.445 billion, an increase of $295 million. The additional funds are earmarked for hiring an additional 900 air traffic controllers, 300 aviation inspectors and 50 aviation security personnel. Doppler radar and advanced automation systems would be purchased with the requested $492 million in additional Facilities and Equipment program dollars.

  Despite underfunding of aviation programs, the Administration proposes the repeal of any reduction in the aviation ticket tax and elimination of essential air service.

- Federal Railroad Administration budget slashed 93 percent, includes no funds for Amtrak or Northeast Corridor Improvement Program - For the fourth straight year, the budget requests no operating assistance for Amtrak. However, the budget does not count in its revenue sources the sale of the railroad, but does indicate that the President's Privatization Commission is studying options to privatize Amtrak.

VETERANS

The Veterans Administration provides wide-ranging services to the United States' 27.5 million veterans, 47.1 million eligible family members, and 1.8 million survivors of deceased veterans. Veterans and their families receive support through the health care, pensions, compensation, education, and housing assistance programs of the Veterans Administration, support which is vital to the well-being of many residents of our cities. The Administration's proposed FY89 budget calls for a funding level of $30.1 billion. Included in this amount is $16 billion for benefits programs, $10.6 billion for medical care, $501 million for construction, and $1.5 billion in new legislation. Program changes of interest to cities include:

- a 4.2 percent cost-of-living increase provided to compensation recipients;

- repeal of authority for the Veterans Administration to make education loans ($29 million in FY87);

- $367.8 million for major construction projects and $123.9 million for minor construction;

- a decrease of $97 million in education and training obligations due to a projected caseload decrease of 38,000;

- a net increase of $207 million in Medical Care, resulting from increases in Nursing Home Care ($56.9 million), Outpatient Services ($58.3 million), Community Nursing ($26.8 million), and a reduction in Contract Hospitals ([illegible].6 million); and

- no funding requested for veterans job training which was eliminated in FY87 ($30 million).

Proposed legislation outlined in the budget calls for $5 million to provide tuition reimbursement for nursing personnel taking nursing degree-related courses.

The Administration intends to submit legislation which would index compensation payments to the annual change in the Consumer Price Index ($361 million). The Administration will also seek to enact legislation that will allow negotiated interest rates on VA-guaranteed mortgages.

The Administration supports legislation creating a cabinet-level agency for the Veterans Administration.